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ABSTRACT

Designed as an aid in preparing federal income tax returns, this report explains terms, provides a worksheet, and describes sources of tax help. The importance of keeping tax records is discussed along with strategies for recordkeeping, types of records to keep, and how long to keep them. Explanations of the following terms are provided along with references to relevant chapters in Internal Revenue Service (IRS) Publication 17: (1) income (wages/salaries/other earnings, interest and dividends, capital gains and losses, alimony, and retirement plan benefits); (2) adjustments (moving expenses, Individual Retirement Account (IRA)/Keogh contributions, spouse's income, and contributions to charity); (3) deductions (medical/dental, taxes, interest, employees' educational expenses, casualty and theft losses, and charitable contributions); and (4) credits (child/disabled dependent care, political contributions, and energy conservation). A worksheet for recording monthly figures in each of these areas as well as in several additional areas is provided. Sources of tax assistance which are described include: IRS publications, direct IRS help, volunteer groups, commercial tax services, attorneys and accountants, and enrolled agents. Information in this report is current at the time of printing, January 1983, but is subject to change. (DC)

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The CIRcular™
Consumer Information Report 9

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Income Tax Organizer

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If you start now to organize your personal financial information, you'll have less work to do next year in preparing your federal income tax return. This report provides work sheets, explains terms, and refers you to sources of tax help.

The Value of Record Keeping

Tax time for many people ranks second only to New Year's Day as an occasion to make resolutions. Next year, you declare, you'll be more organized—no more sorting a year's accumulation of records or, worse, finding that you've kept few records at all.

A simple system for organizing will make your resolution easier to keep. This report offers a framework that you can adjust to suit your particular needs. If you use it regularly this year, you'll have considerably less work to do at tax time next year.

BACKUP Good records do more than just make your work easier. They back up the figures you've entered on your tax form. If the Internal Revenue Service (IRS) questions your return, in most cases, the burden is on you to prove your figures.

The most acceptable forms of proof are your records and either actual receipts, such as sales slips, canceled checks, vouchers, and statements of earnings, or photocopies of these receipts. If your canceled checks aren't returned by your financial institution, be sure to indicate in your check register which checks are for tax-deductible expenses. If you can't back up your figures by these or other means, the IRS may disallow your claim and you may have to pay more tax—and, in some cases, penalties and interest.

STRATEGY A running record of your expenses can also help you foresee your probable reporting method for the year—for instance, if you'll be able to itemize deductions. As a rule, you're likely to benefit by itemizing your deductions if, during the tax year, you have paid large unreimbursed medical bills, property taxes, or interest on loans; have given large amounts to charity; or have had major casualty or theft losses.

You may also use the work sheets to help you time financial moves. You might, for example, see that this would be a good year to contribute the maximum allowable to your Individual Retirement Account (IRA).

WHAT TO KEEP In order to claim adjustments, itemized deductions, and tax credits, you will need to keep track of a number of expenses. Some examples are:

Business Use of Your Car Keep the purchase agreement for the car; a log noting details of trips, such as mileage and the purpose of the visits; and receipts for such costs as gas, oil, repairs, license, and registration.

Charitable Contributions You'll need receipts and canceled checks (or copies) for cash gifts and a record of the fair market value of any property donated. Although no deduction is allowed for contributions of your services, you may be able to deduct your out-of-pocket expenses (such as transportation costs) while doing such work; keep these receipts as well.

Medical Bills Keep receipts for all professionals' fees, hospital charges, and medicine and drug purchases; for transportation expenses to and from medical care; and for health insurance premiums paid and reimbursements received.

Sales Tax If you buy costly items during the year (home furnishings, for example), keep all records showing sales tax paid on them in case the total exceeds the deduction listed in the state sales tax tables (Form 1040 instructions) for your income and family size. You may deduct the total sales tax you paid if it is greater than the tax table amount. If it is not greater, you deduct the tax table amount plus sales tax you paid if you bought a car, motorcycle, motor home, truck, boat, or plane.

HOW LONG TO KEEP You should keep records at least until the statute of limitations for the return expires—which is usually three years from the date the return was filed or due.

For your own benefit, you should keep certain records longer. If you think your income may increase in the next few years, hold copies of your previous tax returns for at least five years in case you're eligible for income averaging. And keep records of any transaction involving your real estate or personal property until you sell or otherwise dispose of it; such records will be essential in backing up claims of casualty losses and capital gains and losses.

Organizing Your Tax Data

The work sheets will help you keep track, on a monthly basis, of figures you'll use to calculate your income tax at the end of the year. You'll want to note all income you receive, by amount and source. You'll also be concerned with "outgo"—because certain payments and contributions can ultimately lower the amount of tax due. (However, these sheets are not substitutes for receipts and other original records and won't be accepted as such by the IRS.)

Following are general guidelines that will help you evaluate your financial data. For your convenience, these guidelines are cross-referenced to chapters in IRS Publication 17, *Your Federal Income Tax* (November 1982 edition), which you should consult for comprehensive information.

(Federal and state tax laws differ in several important areas. This report presents only federal tax law information. Call the California State Franchise Tax Board at (800) 852-7050 for state income tax information.)

INCOME For tax purposes, gross income

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is all income from any source except that specifically excluded by tax law (such as gifts and inheritances).

Wages/Salaries/Other Earnings This includes bonuses, tips, income from side jobs, and certain fringe benefits. See Chapters 7–8 in Publication 17. You must also include as part of your taxable income a portion of any unemployment compensation paid to you, if your income (including the unemployment compensation) is over a certain amount. See Chapter 13.

By January 31, anyone who employed you during the previous year must give you Form W-2, showing your total earnings for the year and the amounts withheld for taxes and other purposes. If you're paid at least $600 on commission, you'll receive Form 1099-NEC. Attach a copy of each W-2 (and any 1099-NEC forms) to your return.

Interest and Dividends By January 31, the bank or other institution where you save will send you a statement of interest totaling $10 or more paid in the previous year. If you received $10 or more in dividends, you'll get a year-end statement from your brokerage firm if it holds your stock, or from the issuing company if you hold the stock yourself.

You can exclude from your taxable income up to $100 of qualifying dividends. If you file a joint return, you can exclude $200, regardless of which spouse received the dividends. If you have an "All Savers" certificate issued before January 1, 1983, you're also entitled to a *lifetime* (one-time) exclusion of up to $1,000 of interest earned ($2,000 if you file a joint return). See Chapter 9.

Beginning July 1, 1983, financial institutions where you save or corporations where you invest may start withholding 10% of your interest or dividends for payment of your federal income tax. The amount withheld will be reported on your year-end statement, which you should send in with your tax return. Under certain circumstances, you may be exempt from tax withholding on interest and dividends. See Chapter 5.

Capital Gains and Losses A capital gain or loss is your profit or loss from the sale of a capital asset—generally, any property you own and use for investment. Your calculations will include the asset's original cost adjusted by such factors as depreciation (a portion of the amount the property's value has declined), improvement costs, and any profit from the sale or exchange of the asset. See Chapters 28–32.

You'll be taxed on 40% of the gain on the sale of a capital asset *held* (owned) more than a year. The maximum rate at which that 40% can be taxed is 50%.

Other tax advantages apply to the sale of a home that serves as your principal residence. If you sell your home and buy another principal residence (of equal or greater value) 24 months before or after the date of sale, tax on your gain will be *deferred* (postponed). Usually, you're allowed to defer your gain only once during any 24-month period. However, if you sell your home because of a job-related move (and you qualify for the moving expense deduction), you may defer your gain more than once. See Chapter 30.

If you're at least 55 and sell a home that was your principal residence for at least three of the last five years at the date of the sale, you're entitled to a maximum lifetime exclusion of up to $125,000 of your gain.

Alimony This is taxable as ordinary income. Child support payments are neither taxable if you receive them nor deductible if you pay them. See Chapter 18.

Retirement Plan Benefits If you're receiving income from a retirement plan, federal taxes on this income will be withheld by your former employer or the financial institution that administers your plan—unless you specify otherwise. While the federal law authorizing this withholding was effective January 1, 1983, in some cases, withholding may begin as late as July 1, 1983. You'll be notified of the actual starting date for withholding.

You can be exempted from withholding by notifying whomever administers the plan. At the end of the year, you'll be sent Form W-2P, which will break down your benefits into taxable and nontaxable portions and tell you how much was withheld. See Chapters 5 and 12.

ADJUSTMENTS These are subtracted from your gross income. The remainder is your *adjusted gross income*.

Moving Expenses Job-related moving expenses are deductible whether or not you itemize, if they meet the qualifications described in Chapter 15. If your move is within the U.S., use Form 3903. If you moved outside the U.S., use Form 3903F.

IRA/Keogh Contributions If you have an Individual Retirement Account (IRA), the maximum annual contribution deductible on your federal tax return is $2,000 or 100% of your *earned income*, whichever is less. (Earned income, in general, is wages, salaries, and professional fees you've been paid for personal services. It does not include, for example, income from a retirement plan or interest on investments. See Chapter 1.) If you also establish a separate IRA for your unemployed spouse, you can contribute a maximum of $2,250 or 100% of your earned income, whichever is less, to both IRAs. You can divide the contributions as you choose, as long as you contribute no more than $2,000 to either account.

If you have a Keogh plan, the maximum contribution deductible on your federal tax return is $15,000 or 15% of your earned income, whichever is less.

For any tax year, you may contribute to your IRA or Keogh plan until the date your tax return is due (including extensions). If you make excess contributions, you must file Form 5329; such contributions are subject to a penalty tax. See Chapters 12 and 17.

Employees' Business Expenses If you have unreimbursed travel, entertainment, or gift expenses, you may be able to deduct these amounts. Unreimbursed travel expenses can only be deducted if you were away from your home for business reasons. You may deduct these expenses even if you do not itemize your deductions. Your unreimbursed expenses for entertainment and gifts may be deducted only if you itemize your deductions. See Chapter 16.

Spouse's Income If you file a joint return for 1982, you can deduct 5% of the qualified earned income of the spouse with the lower qualified earned income, up to a maximum of $1,500. From 1983 on, you'll be able to deduct 10%, to a maximum of $3,000.

Contributions to Charity For tax years 1982 and 1983, you may deduct charitable contributions even if you don't itemize. This deduction is 25% of the first $100 you contribute, or the first $50 if you're married and filing separately. See Chapter 24.

DEDUCTIONS Itemized deductions are amounts you subtract from your adjusted gross income when calculating your taxable income. You claim itemized deductions only to the extent that their total exceeds the "zero bracket amount" for your filing status. The zero bracket amount itself isn't deducted from your income. It's built into the tax tables to simplify your calculations. See Chapter 1.

Medical/Dental For 1982, you may deduct half the amount you spent for medical and dental insurance up to $150. You can then add the balance of your premiums to your other medical expenses. Only the portion of these expenses that exceeds 3% of your adjusted gross income is deductible. For 1983, you'll be able to deduct only the portion of your medical expenses and insurance premiums that exceeds 5% of your adjusted gross income. Of the amount you spent for medicine and drugs, for both 1982 and 1983, only the portion that is more than 1% of your adjusted gross income can be included in your medical expenses. Remember to reduce your expense claims by the amount you were reimbursed through insurance. See Chapter 21.

Taxes You may deduct state and local real estate taxes, personal property taxes, income tax, excess state disability insurance payments, and sales tax. Gasoline taxes are not deductible. See Chapter 22.

Interest You may deduct certain costs for your credit accounts. You'll get year-end statements of interest and finance charges paid on your home loan and bank credit card accounts. You may also get such statements on other credit accounts—for charge accounts, car loans, and others—either automatically or on request, depending on the creditor. See Chapter 23.

Employees' Educational Expenses You can deduct educational expenses if the education is required by law or by your employer in order to maintain your salary, status, or job. You can also deduct educational expenses that enable you to maintain or

INCOME

Usual sources of taxable income.
For full information, see Chapters 7-14 and 28-32 of IRS Publication 17, *Your Federal Income Tax* (1982 edition).

TYPE	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPT	OCT	NOV	DEC	TOTAL
Wage/Salary/Other Earnings Gross amounts; do not exclude withholdings for taxes, FICA, etc.													
Tips Cash and value of noncash tips such as complimentary tickets and services.													
Interest From savings, loans, notes, certain bonds, credit union accounts, etc.													
Dividends Ordinary dividends (paid from the earnings and profits of a corporation).													
Capital Gains (Losses) Those from sale of home or personal property such as stocks, bonds, etc.													
Retirement Benefits Amounts received from a company or government plan, IRA, Keogh, annuity, etc.													
Alimony (received)													
Other (specify) Net rental income, jury duty payments, gambling winnings, unemployment compensation, excess reimbursements from employer, etc.													

ADJUSTMENTS TO INCOME

These adjustments are used to determine your adjusted gross income.
For full information, see Chapters 33-36, Publication 17.

Disability Pay													
Moving Costs													
IRA/Keogh Contribution													
Alimony (paid)													
Employees' Expenses													
Spouse's Income													
Contributions to Charity													

ITEMIZED DEDUCTIONS

Various personal expenses may be deductible, to the extent that they exceed your zero bracket amount. For full information, see Chapters 1 and 21-27 Publication 17 (1982 edition).

TYPE	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPT	OCT	NOV	DEC	TOTAL
Medical/Dental Such as doctors' fees, medicine, hospital, health insurance, transportation.													
Taxes State and local taxes (where applicable) on real estate, personal property, income, and sales.													
Charitable Contributions													
Interest Home loan, personal loan, credit cards, charge accounts, etc.													
Employees' Educational Expenses For educational expenses related to your salary or job status.													
Casualty and Theft Losses For damage done to personal and business property.													
Other (specify) Such as certain job-related expenses, tax advice expenses, and home office expenses.													

CREDITS

Credits for certain expenses may be subtracted directly from the tax you ordinarily would owe. For full information, see Chapters 33-36, Publication 17.

Child/Disabled Dependent Care													
Political Contributions													
Energy Conservation													
Other (specify)													

improve skills necessary to perform your job, but not expenses for education that qualifies you for a new trade or business. See Chapter 26.

Casualty and Theft Losses You may deduct losses from damage to or theft of personal property (such as your home or car) and business property. You must reduce the amount of your loss by the amount of insurance compensation you receive. For 1982, a loss on personal property is deductible only to the extent that it exceeds $100 for each casualty or theft. From 1983 on, you'll be able to deduct only the amount of your losses (less $100 for each casualty or theft) that exceeds 10% of your adjusted gross income. See Chapter 25.

Charitable Contributions You may deduct contributions you make to qualified charitable organizations up to a maximum of 50% of your adjusted gross income (in most cases). If you donate goods, such as clothes or books, you may deduct the fair market value of the property at the time of the contribution. See Chapter 24.

CREDITS These are subtracted directly from the tax you ordinarily would owe, according to the tax table.

Child/Disabled Dependent Care You may claim a credit ranging from 20%–30% (depending on your adjusted gross income) of the first $2,400 in eligible work-related expenses for one dependent and $4,800 in eligible expenses for two or more dependents. See Chapter 34.

Political Contributions You're allowed a credit of one-half of your political contributions up to $50 if you're single and $100 if you're filing jointly. See Chapter 36.

Energy Conservation If your home was built before April 20, 1977 and you install energy-saving devices or systems in it by January 1, 1986, you may claim a credit. If you install energy-saving devices, such as insulation or storm windows, you may claim a credit of 15% of your expenses, to a maximum of $300. If you install special energy systems, such as solar heating equipment, you may claim a credit of 40% of the first $10,000 of your costs, to a maximum of $4,000. These credits are available whether you rent or own your home, and you can carry over any unused credits from one year to another, through the 1987 tax year. See Chapter 36.

Sources of Help

Your signature and the date are the only items on your tax return that you must provide without assistance. At every other step of the way, help is available. You can get free help from the IRS or from trained volunteer groups working in many California communities. Or, you can pay a professional to do the job for you (fees are deductible if you itemize your deductions).

Having someone else—even the IRS—help you does not relieve you of responsibility for the accuracy of your return. That responsibility remains yours, though a paid preparer may also be liable for penalties under certain circumstances.

SELF-HELP If you favor the do-it-yourself approach, the IRS's library of publications is a valuable tool. Besides Publication 17, the IRS publishes supplementary booklets on such subjects as alimony, child care, medical expenses, homeowners' expenses, and business operations in your home. A list of titles is on the last page of Publication 17.

All IRS publications are free. You may order Publication 17 by mail, using the order blank on the inside back page of the instruction booklet that the IRS mails to you with your personalized tax return. The other publications are available by writing or calling your nearest IRS office, listed in the white pages of the telephone directory under "United States Government."

DIRECT IRS HELP The IRS offers direct help to individual taxpayers in three ways:

1. You can call for advice on figuring your taxes or for help with any other kind of tax question. No record will be made of your identity unless you request a follow-up call from the IRS.

2. If you file your return by April 15, 1983, the IRS will figure your tax for you if: (1) you use the short Form 1040A or 1040EZ; or (2) you use the long Form 1040 and have an adjusted gross income of $50,000 or less, received only from wages, salaries, tips, dividends, interest, pensions, and annuities *and* do not itemize your deductions or use income averaging. If you're eligible for the credit for the elderly or the earned income credit and indicate your eligibility on the proper line of your return, the IRS will also figure these credits. Enter the basic identification and income information on your return and mail it to the IRS office for taxpayers in your area designated in the instruction booklet.

3. Your local IRS office can help you prepare your return. A complete service is limited to those who can't do their own figuring because of a disability (including illiteracy). Other assistance is available to anyone, usually through small group meetings.

VOLUNTEER GROUPS Volunteers from community organizations and businesses throughout California offer free tax help to the public through two national programs: the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE). Volunteers are trained by the IRS and the state's Franchise Tax Board. In California, you can call (800) 772-2345 for the location of VITA or TCE volunteers in your area. Or, look in the white pages under "U.S. Government, Internal Revenue Service, Federal Tax Information."

COMMERCIAL TAX SERVICES A tax service will prepare your returns for a fee that varies with the complexity of your situation. Call for a general estimate (listings are in the telephone directory's Yellow Pages under "Tax Return Preparation"), or take your documents to the preparer's office for a firmer quote. Also ask what liability the preparers will assume—whether, for instance, they will pay any penalties and interest if they make mistakes.

Effective 1983, tax preparers in California must meet specific qualifications and must register with the State Preparer Advisory Committee each year. The state Department of Consumer Affairs will investigate consumer complaints about the work that registered preparers perform.

The IRS also sets specific requirements for record keeping and reporting as well as substantial penalties for preparers who are fraudulent or negligent in their work.

ATTORNEYS AND ACCOUNTANTS Attorneys, public accountants (PAs), and certified public accountants (CPAs) can prepare your tax returns and represent you in IRS audits. Attorneys can also represent you in court if the need arises. PAs and CPAs are licensed by the California Board of Accountancy to offer income tax preparation services to the general public.

ENROLLED AGENTS These people have passed an examination held by the U.S. Department of the Treasury. Some enrolled agents are also members of professional associations that set additional standards for their members. Enrolled agents can prepare your return as well as represent you in IRS audits.

Fees for hiring these professionals will depend on such factors as the complexity of your return and the orderliness of your records. As you would with any professional, discuss your situation and ask for an estimate before any work is done.

NOTICE: Bank of America assumes no responsibility for determining an individual's tax liability. The descriptions and discussions in this report are not intended to be comprehensive, and the information is subject to change. Questions concerning your individual tax status should be directed to the Internal Revenue Service or to a qualified tax professional.

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